OUTSOURCING: A STRATEGIC TOOL FOR A MORE STRATEGIC HR

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Until very recently, managers and executives dealt with the "hard" business issues, HR people dealt with the "soft" personnel issues, and rarely if ever did the two camps meet. That's changing rapidly, and the main reason is the highly competitive business climate. No longer is it enough for a company to carve out a competitive advantage in cost, technology, distribution, manufacturing, or product features. Those can be easily copied by almost any competitor around the world. The only true competitive advantage today lies in organizational capabilities, such as speed, responsiveness, agility, learning capacity from employee competence, and protecting and leveraging the investment in human capital. These are today's strategic HR issues. This is driving the creation of a whole new HR—an HR that's a strategic partner, having the high-level professionalism to focus squarely on results that matter to the competitive performance of the organization. One key piece in that new vision of HR is the intelligent use of outsourcing.

WHY ORGANIZATIONS OUTSOURCE

Management expert Tom Peters has called outsourcing the most sweeping trend to hit management since reengineering. Management experts say companies should define the areas critical to their success, devote maximum resources to those areas, and outsource everything else. In general, organizations outsource to leverage the outsourcing partner's expertise, to transfer some or all of the risk and accountability of the function to the outsourcing partner, and to increase the value of the function to the organization.

One large financial services institution, for example, has been looking into outsourcing its training to lower costs and increase efficiency. A prominent telecommunications company has outsourced its training curriculum and instructional design to allow them to focus on core business competencies and increase their competitiveness. Organizations outsource for a variety of reasons, but the most prominent include the need to:

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- Reduce operating costs
- Create greater focus on the core business
- Use available capital better
- Improve revenue growth
- Improve the quality of services provided
- Increase the strategic focus of internal functions
- Reduce the dependency on transaction and administrative responsibilities

ALIGNING HR WITH BUSINESS STRATEGY

Some HR functions have long been outsourced, such as payroll, temporary staffing, benefits, and benefit-plan design. An *HR Magazine* survey found that 91 percent of responding HR departments currently outsource one or more functions. About 40 percent of these organizations outsource less than $100,000 annually in HR services, but 16 percent outsource more than $1 million annually. The survey also reports that more HR professionals will outsource more services in the future.

Another survey, conducted by *The Economist* and Arthur Andersen Consulting, shows that 25 percent of surveyed firms plan to outsource all or part of their human resources functions in the next three years, and 41 percent plan on doing the same with employee benefits during this same period. Further, the survey shows a trend toward using outsourcing as a competitive tool.

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In the new vision of HR, outsourcing will be used not just as a way to reduce the burden of administrative tasks, but to make HR more strategic. Instead of being a cost center, HR's new mission is to add value that will be realized by external customers. Organizations are increasingly expecting HR to assume a leadership role in building a healthy, productive, customer-focused culture. Much of this culture building involves systems alignment. On the one hand, there are the workforce requirements: vision, strategies, critical success factors, and values. On the other hand are the workforce capabilities: skills and knowledge, behaviors, and motivation. Creating near-perfect alignment between these two sets of requirements is the new mission of HR, because doing so will result in a stronger competitive advantage. To achieve this alignment, HR departments will increasingly outsource some or all of their training, development, and staffing functions in order to free up valuable HR resources for more strategic activities.

MAKING THE DECISION TO OUTSOURCE PART OF HR

Before an organization decides to outsource some or all of its HR function, management must understand exactly what the

individual HR activities are and what they cost. Then management can begin determining which, if any, should be outsourced.

When managers consider outsourcing, the question to ask is not, "What can I outsource?" but, "What activities do I want to keep?" Virtually every organization has activities that are a part of its culture. These activities may involve proprietary or highly technical information, or may be viewed as rites of passage or "the way we do things here." Examples from HR might include a company's employee orientation program or a product training "crash course" for new sales people. Such programs are important to the organization's culture, could not be easily duplicated by an outside firm, and probably should not be outsourced.

The decision to outsource must be grounded in client need. Too often, when a client organization is sold on the *idea* of outsourcing, the relationship is shaped by what the partner has to offer. In these situations, many potential benefits may be lost, because the partner may not offer support in all areas of activity.

The decision to outsource must be grounded in client need.

The following is a checklist of considerations that enter into making an outsourcing decision:

- ❑ Define HR's vision: How does HR contribute to the organization's success?
- ❑ Identify key business objectives to support the vision.
- ❑ Identify all the specific activities and processes that are part of the function. Use work process redesign technology to classify them as performance consulting/organizational development, services, and programs/tools.
- ❑ Are these activities/processes aligned with the key business objectives?
- ❑ Which of these activities/processes represent best practices for HR?
- ❑ Identify activities/processes that must be kept (see item above).
- ❑ Identify activities/processes that might be outsourced.
- ❑ Do the activities/processes that will remain with HR align with key business objectives?
- ❑ Are there new activities/processes that HR staff should manage in place of the outsourced tasks?
- ❑ Is the existing staff ready to handle these new activities/processes or will they require development or retraining?

WHY ORGANIZATIONS OUTSOURCE TRAINING AND DEVELOPMENT

Our experience has shown that organizations expect a good outsourcing partner to produce results like these:

- Reduced per student per program costs by 20 percent
- Negotiated a 15 percent cost reduction with external suppliers
- Reduced number of training suppliers 40 percent
- Increased the quality of training courses
- Reduced course redundancy 40 percent
- Aligned curricula to values and competencies
- Implemented a process for evaluating acquisition of skills
- Built in an evaluation of behavior change for all new development projects
- Enabled internal performance consultants to increase time spent on strategic focus

Results and efficiencies are driving the outsourcing trend. At a recent national conference, several training directors revealed in an impromptu poll that they planned to outsource most of their training program delivery by the year 2000. Other recent surveys also show an increasing trend toward outsourcing training and development. Consistently, organizations and HR departments cite the following reasons:

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- Access to world-class capabilities in areas that are not core business competencies for the client organization
- Ease of administration (outsourcing partners have computer and other systems that can deliver training or services faster or better)
- Translation of fixed costs to variable costs
- Cost savings, through volume discount arrangements
- Partner held accountable for value-added, return-on-investment-focused training activities
- Expanding available development and delivery resources

Cost reduction is an important reason to outsource but often not the only one. Other important reasons include the need to increase quality and efficiency. This is particularly true when HR drives outsourcing. Human Resources departments are being required to do more with less, and typically the "less" means fewer hours per program at less cost. As HR departments reinvent themselves to meet new demands, they often view outsourcing as a strategy for freeing up the time needed for high-level consulting and relationship building, improving quality, and cutting costs.

The Five Levels of Training and Development Outsourcing

The outsourcing of training and development is not an all-or-nothing proposition. Various levels and combinations are

possible depending on the organization's needs. In general, there are five levels of outsourcing agreements:

Level 1: Vendor-Customer

In this arrangement, sometimes referred to as "out tasking," inside staff uses external resources to support some of the development or delivery of the training curriculum, while retaining responsibility for training administration and management. The outsourcing partner might teach a class, conduct a training activity, coach employees, design a program, or evaluate an intervention, as directed by the inside staff. Assignments in this arrangement are usually short-term.

Level 2: Supplier-Customer

Here the inside staff identifies the audience or topic, defines needs, plans training curricula, and schedules and administers programs. Inside staff uses the outsourcing provider to supply expertise in a particular area. For example, the outsourcing partner might develop and deliver groups of classes or programs, such as leadership or decision making, to an audience or business unit identified by the client.

The outsourcing partner develops, delivers, and evaluates a large group of training programs and is responsible for administration and often evaluation.

At levels 1 and 2, organizations outsource the development of training activities, delivery of individual training programs, and evaluation of training effectiveness. In many organizations, these activities have been contracted out for years, and vendor relationships have been evolving over time.

Level 3: Strategic Supplier-Customer

In this case, inside staff handles alignment with the organization's vision and values, conducts high-level performance consulting, and selects training responses and training modalities. The outsourcing partner develops, delivers, and evaluates a large group of training programs and is responsible for administration and often evaluation. The outsourcing partner must manage several vendors and use various delivery options.

At level 3, most of the program administration is outsourced. This includes:

- Course content
- Publication of the course catalog, if there is one
- Internal marketing of courses
- Course registration
- Logistics, such as scheduling rooms and equipment availability
- Administering evaluations

- Financial responsibilities (e.g., charge-backs to business units)
- Course selection / development, as needed, determined by client
- Tuition reimbursement

The idea of outsourcing the management and administration of training development and delivery is a new one for many organizations. However, Corning Incorporated has been operating at level 3 for more than ten years. Increasingly, level 3 outsourcing partnerships are perceived by many training professionals to be the "future state" of human resources development (HRD) departments.

Level 4: Partners

Here a lean inside staff coordinates corporate strategy, integrates HR initiatives among multiple business units, and acts as liaison between top management and partner. The outsourcing partner, whose representatives act as part of the client's business unit, is responsible for performance consulting, identifying appropriate training and development responses, and administering and delivering some or all training and development.

At the highest outsourcing level, inside staff is nonexistent or consists of only a relationship manager that manages and measures partner effectiveness and ROI.

Level 5: Strategic Partners

At the highest outsourcing level, inside staff is nonexistent or consists of only a relationship manager that manages and measures partner effectiveness and ROI. Representatives from the outsourcing organization work at the client's headquarters and other locations, and they plan, deliver, administer, and evaluate all training and development.

At levels 4 and 5, internal staff roles and structure change to accommodate the developing business partnership with the outsourcing partner. The partner is more intimately involved in tying training and development initiatives to strategic goals. Their representatives deal directly with high-level managers and executives that have the business need and are accountable for business performance. The outsourcing partner does not wait to be told what to do or what training program to run, but instead acts as a performance consultant, helping translate organizational vision into performance solutions, including training, compensation system design, or performance management. The outsourcing partner staffs the HRD department and few, if any, client staff remain. Client management works directly with the outsourcing partner to initiate organizational change or new strategic directives.

Sometimes organizations will retain a small staff to conduct selected courses. DuPont, for example, has outsourced most of its

training to a partner, but retains control over safety training. At level 4, discrete business units are operating in this manner. At level 5, the entire organization, including corporate headquarters, has made the switch.

The Advantages of Outsourcing Training and Development

An organization will generate savings when HRD functions in a business- and results-oriented way, when the right individuals are trained in the right programs at the right time. Many corporations are looking to partner with outsourcing companies to help them find this edge.

Cost Savings

The savings an organization realizes depends on the outsourcing partner it selects. Some outsourcing firms depend on third-party vendors to supply training, which may be low in cost but unsuited to the client's needs. Increasing the class size, reducing delivery time, and using off-the-shelf training will easily cut costs, but training quality will suffer. Responsible outsourcing partners will work to optimize cost-savings *without* sacrificing quality.

Most full-time in-house instructors spend less than 50 percent of their time in the classroom.

Instructors

When training delivery is outsourced, the organization pays only for the time the instructor is in the classroom. Even considering the management costs of the outsourcing partner, the organization can easily realize savings of 20 to 25 percent. Most full-time in-house instructors spend less than 50 percent of their time in the classroom. If they also have training management duties, that 50 percent drops to 30 percent. Dividing the number of days actually in the classroom by the fully loaded salary of an instructor (benefits, cost of providing an office, telephones, holidays, vacations) quickly reveals the organization's instructor costs per delivery day.

Travel

Distance learning and self-study can eliminate the travel costs sometimes associated with training, and the outsourcing partner should recommend these alternatives because they reduce costs and meet the needs of the learners.

Technology

Technologies such as CD-ROM and the Internet are changing how training is delivered. Outsourcing providers have already invested heavily in these technologies and absorbed the costs of their development, freeing the client organization from the need to make the initial investment and continued investments as

technology inevitably evolves. The outsourcing provider can also keep the client organization aware of new technologies as they become available.

Administration

Outsourcing partners often have proprietary or off-the-shelf computer systems that save time and improve service. These systems might keep track of training programs and instructors, do billing, and follow up on training for research and reinforcement purposes. For example, Development Dimensions International (DDI) has invested in an automated system to get employee feedback on training effectiveness by phone. The client organization can take advantage of these systems without the investment involved in developing and maintaining them.

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Program Development

With a full-time development staff, an outsourcing partner can develop and deliver a new program quickly, without the straining of resources a client organization might encounter. Beyond this, outsourcing partners can often develop new technology and courses at less cost because they are able to spread development costs over multiple clients with similar needs.

Research

Research into training effectiveness is one of the specialties of the outsourcing provider. The client organization can take advantage of proven training effectiveness without the investment a comprehensive research function would require. DDI, for example, has a staff of Ph.D. professionals devoted to researching training effectiveness. Few in-house training departments could afford such an investment.

Beyond Cost Savings

The savings just discussed are not the entire picture. The alignment of training with the organization's vision and values, the assurance that training changes behavior, the delivery of training where it's needed, and on-the-job reinforcements to learning are of inestimable value, but many organizations lack the financial resources to make them happen. An outsourcing partner can often bring about these needed changes in training and development cost-effectively.

Training Course (Program) Library

The outsourcing partner typically has large libraries of high-quality training that the client can use or modify to meet specific

needs. By partnering with an outsourcer, the client avoids the investment need to create and maintain a training library.

Some outsourcing providers also integrate their training programs around core job competencies and common training methodologies. This allows programs to more effectively build on each other and link with other HR systems such as selection and performance management.

New Courses (Programs) Development Capability

Outsourcing providers often invest heavily in program development technology, such as video and CD-ROM production and distance learning. They employ individuals who are dedicated to keeping up with changes in technology. These partners can provide a level of speed and sophistication in new program development unequaled by most in-house training departments.

Familiarity with Technology

New delivery platforms, such as CD-ROM and the Internet, are redefining the training and development industry, just as online systems have created new ways of tracking registration and participation levels in training courses. Many outsourcing providers have stayed ahead of these trends and are poised to leverage emerging technologies to improve the quality and efficiency of their services.

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Speed and Quality of New Program Development

Outsourcing providers employ full-time professionals devoted to developing new training programs, and can assign development teams to client projects as needed. Because these teams are involved in program development for multiple clients, their solutions will be based on their expertise and experience with various clients.

Size and Geographic Distribution of Trainer Network

Outsourcing providers often have a network of training delivery professionals, and have systems in place to select, train, and monitor delivery personnel. Trainers may be available nationwide or worldwide, allowing the outsourcing provider to cut travel costs (and often improve employee acceptance of the training) by using local delivery resources, rather than flying people in from central locations.

OUTSOURCING AT BASF

Following a strategic decision to concentrate personnel resources on core competencies, senior leaders at international

chemical manufacturer BASF Corporation set about restructuring key functions to align with its new focus. Among the first changes made, multiple HR functions were streamlined into a centralized Career Development Group.

Charged with managing diversity issues, training, staffing, international human resources, and executive development, the managers of the Career Development Group realized that they faced a substantial administrative burden. The managers viewed open enrollment training, in particular, as an area that would require significant staff time (for curriculum design and management, catalog distribution and maintenance, training delivery, and course registration). While training was certainly important at BASF, it was clearly not a core competency for the organization. Following the pattern established by the overall restructuring, the managers began to consider outsourcing the training function. A task team began to look for partners who could deliver open enrollment training, and manage the administrative processes attached to training activities.

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Potential outsourcing partners were evaluated against the following criteria:

1. Employee training and development should be a core competency of the partner.
2. The partner should be positioned to provide "local touch" to our offices, but should also have "global reach."
3. Training delivered by the partner must be in alignment with BASF's business needs; the partner must be prepared to document that alignment.

After a selection process which included the solicitation of discussion documents and formal proposals, as well as multiple meetings, BASF selected DDI as an outsourcing partner in November 1996.

The relationship, which includes elements of levels 3, 4, and 5 on DDI's scale, began with a clear delineation of roles. According to the agreement, DDI would take on those areas of training where its expertise added the most value, including:

1. Training needs assessment
2. Program selection
3. Administration of open enrollment (e.g., basic supervisory training, interpersonal management skills, and team-building activities)

BASF staff would retain responsibility for those areas in which their experience and perspective added value, including:

1. Executive orientation
2. Standard seminar series
3. Plant management and utility training

WHY ORGANIZATIONS OUTSOURCE RECRUITING AND SELECTION

Outsourcing is not new in recruitment and selection. For many years, organizations have contracted with other firms to select temporary employees, screen resumes, and administer tests and background checks for applicants. Recent studies indicate, however, that it is becoming increasingly common for organizations to outsource more substantial elements of the recruiting and selection process for professional and managerial positions. DDI's research indicates that many clients cite these reasons:

- To reduce cost per hire. Client pays only per candidate hired, thus fixing their costs.
- To gain recruiting and selection best practices. The outsourcing provider has systems designed by industry experts, particularly in emerging areas such as Internet sourcing and on-line resume screening.
- To increase flexibility. Outsourcing lets the client organization respond to specific recruiting and selection needs, such as plant start-ups, acquisitions, or seasonal needs, without incurring long-term overhead costs.
- To align recruiting and selection with other HR practices. Not only will employees and managers be hired and in place quickly, they'll also be prepared to contribute to business goals.
- To facilitate international hiring. Many outsourcing providers have offices around the world.
- To avoid the time and expense of building their own selection infrastructure. This is especially important when that infrastructure would have to provide nationwide coverage for a large-scale staffing initiative.
- To increase speed. Outsourcing providers can often screen and place more candidates faster.

Two major trends are driving the increased outsourcing of recruiting and selection.

Two major trends are driving the increased outsourcing of recruiting and selection. First, organizations now view recruiting and selection in a new, more strategic light. Attracting and retaining high-caliber individuals in increasingly tight labor markets has become critical. Even in countries with relatively high rates of unemployment, skilled knowledge workers are in demand for their intelligence, skills, and adaptability. When recruiting and

selection are viewed as competitive tools, management's expectations rise and organizations demand accuracy and efficiency in hiring decisions, which an outsourcing partner can provide.

Second, this new strategic role has impacted the skills required to manage the recruiting and selection function. Finding highly skilled workers involves new sourcing techniques, including the Internet and mass-media services. The global business climate requires recruiting for and from international posts on a regular basis. In addition, HR professionals are also now expected to make decisions at higher levels than ever before. Because line managers have less time to devote to recruiting, HR staff must screen, interview, and hire more job candidates with little or no input from management.

The global business climate requires recruiting for and from international posts on a regular basis.

As with training and development, a key step in making an outsourcing decision involves listing all recruiting and staffing activities and then deciding which must be managed in house. The rest are candidates for outsourcing. Clearly these classifications may change over time as a client partner relationship changes, but it's an important first step in the decision-making process.

Outsourcing Agreements as Applied to Recruiting and Staffing

The five levels of outsourcing agreements described earlier for training and development are described below as they relate to recruiting and staffing.

Level 1: Vendor-Customer

In this arrangement, the client retains all management responsibility for recruiting and staffing and may call on the outsourcing provider to:

- Analyze key requirements of jobs (competencies)
- Design the selection and assessment system
- Select selection instruments
- Design selection instruments
- Administer the recruiting process
- Administer the selection process
- Monitor the hiring process
- Validate the selection system
- Prepare Equal Employment Opportunity (EEO) and other reports

At this level, assignments are usually short-term and defined by the client.

Level 2: Supplier-Customer

Here the client retains overall management responsibility for recruiting and staffing across the organization. The outsourcing partner supplies several of the services listed above, in any combination, for a particular business unit.

Level 3: Strategic Supplier-Customer

In this case, the client retains administrative responsibility for recruiting and staffing across the organization, while overseeing the outsourcing partner's implementation of a recruiting and staffing activity in a business unit or for a special need, such as a plant opening. The outsourcing partner supplies all of the services listed above, for one or more business units, in a special situation for a defined time period. The organization or a third party, such as a state employment agency, can administer the selection process. At this level, the amount of hands-on management required of the client will vary: The outsourcing partner can make the final hiring decision or provide highly screened candidates to client managers for the final hiring decision.

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The outsourcing trend today in recruiting and staffing is mainly defined by the need to hire large numbers of people at once, particularly for new plants or business units. In these cases, the outsourcing partner is evaluated on its speed, efficiency, and quality of hires. This is a level 3 outsourcing activity.

It is possible, however, for a client to manage multiple outsourcing initiatives at different levels with the same partner. For example, a soft-drink manufacturer may contract with DDI to manage all of the recruiting and staffing for its new bottling plant (level 3), while also contracting with DDI to develop interview guides and train new interviewers (level 1) in its sales and marketing division.

Level 4: Partners

Here the client oversees the outsourcing partner's administration of the entire staffing and recruiting process for one or more discrete business units and acts as a liaison between the outsourcing partner and senior management. The outsourcing partner provides all of the services listed above for one or more discrete business units for a given period of time.

Level 5: Strategic Partners

At the highest outsourcing level, the client's senior management interfaces directly with the outsourcing partner. The outsourcing partner provides all of the services listed above for all business units, on a permanent basis.

The greatest change in the outsourcing of recruiting and staffing is the increased willingness of clients to contract outsourcing partnerships at levels 4 and 5, where the outsourcing partner is wholly responsible for recruiting and staffing within one or more business units in the client organization. The relationship is more permanent, and representatives from the outsourcing partner work directly with client management to make recruiting and selection decisions. Client management may or may not participate in final hiring decisions.

The need for hiring often comes in waves based on the opening of a new business unit, the launch of a new initiative, or the availability of new graduates.

Advantages of Outsourcing Recruiting and Staffing

Organizations outsource recruiting and selection activities for many of the same reasons as for training and development, with a slightly greater emphasis on the speed of the outsourcing partner's technology-based applicant tracking, test administration, and other systems.

Cost Control

Most organizations struggle with rising costs per hire, and although it may not be possible for an outsourcing partner to dramatically cut costs, automated sourcing and on-line administration systems can contain them. Clearly, outsourcing can reduce the research and development (R&D) costs associated with recruitment and selection, since the client pays only for use of the service and does not make the major investment in its development.

The need for hiring often comes in waves based on the opening of a new business unit, the launch of a new initiative, or the availability of new graduates. As a result, the administrative staff and facilities needed may not be used at other times during the year. In an outsourcing partnership, the client pays for staff and facilities only when they are used.

Outsourcing partners provide needed consultants and technology systems during large opportunities, such as the opening of a new plant, without adding overhead costs. During periods of unusual demand, client needs can be met without compromising quality or cost control.

Efficiency through Technology

As experienced consultants in recruiting and staffing, outsourcing providers can develop technical solutions, such as on-line applicant tracking systems, quickly and without passing on R&D costs to clients. Their comfort level with technology and their ability to deliver it quickly provide immediate value to clients.

Global Capacity

When recruitment and selection needs vary worldwide, partnering with a global outsourcing firm reduces overhead costs and learning costs, achieves needed results worldwide, and helps focus internal resources on strategy rather than logistics. An effective outsourcing partner becomes part of the infrastructure that many companies need to remain internationally competitive.

Resources on Demand

As industry professionals, outsourcing partners have access to software and website designers, video producers, and others that can quickly create materials for clients to advertise positions and promote the hiring organization.

OUTSOURCING NEW EMPLOYEE SELECTION SYSTEM AT GE

In February 1991, General Electric (GE) Aerospace opened a new state-of-the-art Regional Electronic Center (REC) in Conklin, New York. The new REC was opened as a result of a consolidation of electronic assembly capabilities within existing facilities.

The REC would be very different from existing GE Aerospace facilities. For example, there would be only three layers of management: a plant manager, an 11-person management team, and the associates (operations, technical, and administrative). In addition, the operations associates would be expected to build the electronic components from start to finish, from receiving the parts to shipping the finished goods. They would work in teams and be expected to demonstrate skills and abilities (e.g., providing feedback to coworkers, scheduling, quality inspection, and customer contact) far beyond traditional production positions.

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GE Aerospace needed a selection process that would culminate in new hires that could thrive in the innovative work environment at REC, and fulfill management's vision for the success of the plant. They selected DDI as a partner in the design and implementation of a selection process for the REC.

A team of DDI consultants took the lead in designing a process for selecting candidates, which was administered jointly by the consultants and the REC management team. The first REC associates were hired within a month and, less than two months later, those associates were shipping products to fulfill orders. The REC is presently staffed by 400 people, all of whom were processed through the GE-DDI selection system, and exceeding its initial quality and productivity goals.

SOME PITFALLS OF OUTSOURCING

Although outsourcing partnerships offer many benefits, there are also concerns and some potential pitfalls. A few caveats:

1. Entering an outsourcing partnership may diminish the client organization's skill in a critical area. It is important to be sure that the outsourced activity is *not* a core business competency, because existing staff will be reassigned and will be unavailable to return to the activity if a problem develops in the partnership.
2. Most outsourcing partners seek long-term contracts with clients in order to spread out start-up costs and secure volume discounts from their subcontractors. Outsourcing clients must know exactly what procedures are in place to dissolve the partnerships, if necessary.
3. Outsourcing providers are often in other businesses as well, such as selling training programs. Outsourcing clients should be sure that the outsourcing partners are committed to finding the best solutions, regardless of whose solution that is, and that they have a sound evaluation process in place to measure quality.
4. Although it will take years to establish necessary case law, it now appears that clients retain legal liability for the functions they outsource. For example, a company that outsourced administration of its benefits program was recently held responsible for inequities created when the partner improperly reimbursed employee claims. Client counsel should be included in outsourcing contract negotiations in order to manage liability issues, particularly if selection is outsourced.
5. Beyond legal responsibility for the partner's actions, the client has other investments in the partner's performance. In the area of selection, for example, the first person to meet a potential employee may not actually work for the potential employer, the client. But this person is still charged with representing the client in a positive and professional way. Similarly, in training and development, the trainer delivering material for an important new client initiative may not actually be part of the client organization. Once again, the client is dependent on that trainer's professionalism and credibility.

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DETERMINING THE VIABILITY OF OUTSOURCING

Given the pitfalls, it is essential that the organization considering outsourcing conduct a viability study. In general, it makes

sense to hire an outside consultant to evaluate current practices. A comprehensive viability study would include:

- Return generated on investment in current programs
- Comparison of organizational programs/systems relative to industry best practices
- Leaders'/managers' perceptions of current quality
- Senior management's perceptions of current quality
- Employee perceptions of current quality

Presentation of the viability study should include a facilitated discussion with senior managers. In general, a learning or staffing audit conducted by an outside consultant can help to evaluate current practices.

REQUIREMENTS OF AN OUTSOURCING PARTNER

The best way to address the concerns raised by outsourcing and to avoid pitfalls is to select a highly effective partner and negotiate a strong contract. When evaluating partners, clients should consider the following questions:

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- Is the outsourced function or activity a core competency of the partner, as demonstrated by experience?
- Do the client and partner share values, such as belief in empowerment?
- Is the partner well established in its industry, as demonstrated by size, years of experience, and financial stability?
- Do the partner's resources closely match the client's geographic needs?
- Does the partner have financial systems in place to monitor progress and determine returns on the initial investment in the partnership?
- Does the partner have appropriate technical processes/systems available and ready to bring to the client?
- Can the partner integrate its communication systems, such as E-mail and voicemail with the client's, if necessary?
- Can the partner demonstrate its ability to select and manage other vendors?

CONTRACT DECISIONS

Before a contract is formally prepared, client and partner should meet informally to discuss relationship issues and clarify roles. Such a session might begin with several questions:

- What are each partner's goals for this relationship?
- How will the relationship be monitored and evaluated?
- What access will the partner have to the client's top managers?
- What information or access will be off-limits?
- What procedures will be instituted to deal with problems, as they occur?

Perhaps the most critical decision for an organization, once it has decided to outsource, is the length of the contract. DDI recommends that partnerships be contracted for three years, but that contract must contain escape clauses for both parties.

The first true test of the partnership will come in contract negotiation. The following disclosures will be necessary for both client and partner:

Building in review periods against key metrics and service agreements will ensure constant communication and clarity of purpose and need.

- Current budget information for the function.
- Activity levels for the function over the past two fiscal years.
- Existing vendor usage and pricing structure.
- Confidentiality agreement signed by the outsourcing partner.
- Organizational charts and demographics.

A contract discussion is not only about price but also performance expectations. How the parties approach the contract negotiation will forecast the tone of future interactions. Building in review periods against key metrics and service agreements will ensure constant communication and clarity of purpose and need.

TRANSITION ALTERNATIVES

Once an outsourcing contract is in place, the partners may choose from a number of transition scenarios. During the transition period, activities relevant to the outsourced function are divided into three categories:

- Category 1: Activities currently being performed satisfactorily.
- Category 2: Activities that must be changed or improved.
- Category 3: Activities not currently being performed, for which processes will have to be created.

As the transition progresses, the client and partner can manage these three categories with one of several approaches, including:

- The partner immediately takes over Category 1 activities, while the client reorganizes Category 2 activities and

designs Category 3 activities. The partner takes over Category 2 and 3, as the client completes the reorganization/design processes.

- The client retains responsibility for Category 1, while the partner conducts a major needs analysis aimed at the reorganization/design of Categories 2 and 3. The partner runs Category 2 and 3 activities as they are developed or enhanced. Category 1 activities are the last to be passed over to the partner.
- The partner begins with design and implementation of Category 3 activities, while the client retains responsibility for Categories 1 and 2, which are gradually transitioned to the partner.

Over time, a virtual business may evolve as parties from both organizations become intertwined through contracts based on shared ownership.

There are other alternatives beyond these suggestions. A thorough discussion among all parties to the contract will likely result in an implementation plan that meets the client's unique needs.

THE FUTURE OF OUTSOURCING

The future of outsourcing is being determined by the contracts and relationships being created today. An outsourcing partnership must grow and evolve. What will the relationship look like at the end of three years? Over time, a virtual business may evolve as parties from both organizations become intertwined through contracts based on shared ownership. The key requirement for this future state is trust. Only when both sides trust each other will client and partner invest in each other's business success. Such trust will be rewarded as partnerships yield significant returns. In the end, though, an outsourcing partnership is only as good as the partners who create it. Their work will shape the future of outsourcing. ◆